

September 13, 1999

## **Community Reinvestment Act Performance Evaluation**

**Northwest Bank, National Association  
Charter Number: 23070**

**1716 Mangum Road  
Houston, Texas 77092**

**Office of the Comptroller of the Currency  
Houston Field Office  
1301 McKinney Street, Suite 3750  
Houston, Texas 77010**

**NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

### **General Information**

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Northwest Bank, National Association** prepared by the **Office of the Comptroller of the Currency**, the institution's

supervisory agency, as of **September 13, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

**Institutions's CRA Rating:** This institution is rated *satisfactory*.

Northwest Bank, National Association has a *Satisfactory* record of meeting credit needs within the community. The bank meets or exceeds the factors considered to assign the rating as evidenced by:

- ! A loan-to-deposit ratio that meets the standards for satisfactory performance;
- ! A majority of loan originations within the bank's assessment area;
- ! A reasonable distribution of loan originations to borrowers of different income levels and businesses of different sizes; and,
- ! A reasonable geographic distribution of loan originations within the assessment area.

### **Description of Institution**

Northwest Bank, National Association (Northwest Bank) is a \$161 million institution serving its customers through two locations, two drive-in facilities, a courier branch, and five automated teller machine locations (ATMs). The main office is located in northwest Houston, and the branch is in the Champions area of Houston. The bank is 100% owned by Northwest Bancorporation, Inc., a holding company. Since the previous CRA examination, the Champions branch relocated from the 7600 block to the 6700 block of Farm to Market Road 1960. The courier branch serves commercial customers through pick up of deposits or delivery of currency to the customer's place of business. Hours of operation are reasonable and the bank offers general loan products for consumers and small businesses. Total loans at June 30, 1999, were \$53 million and represented 33 percent of assets. Lending is concentrated in commercial loans to small businesses. As of June 30, 1999, lending activity was in the following categories: commercial and commercial real estate loans (54 percent), construction and

land development (21 percent), consumer (16 percent), and secured by 1 - 4 family residential properties (9 percent).

The bank does not have any legal, financial, or other factors that impede the ability to help meet the credit needs of its assessment area. The evaluation period is from the prior CRA examination date of July 31, 1996 through September 13, 1999. At the prior examination, the bank was assigned a rating of **Satisfactory**.

### **Description of Harris and Montgomery County Assessment Area**

The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. Since the previous examination, the assessment area has been expanded from 89 census tracts in the Northwest portion of the Houston Metropolitan Statistical Area (MSA) to the present 279 tracts, 15 of which are in Montgomery County. The assessment area census tracts have the following characteristics: twenty-four low income (8 percent), seventy-two moderate income (26 percent), ninety-one middle income (33 percent), and ninety-one upper income (33 percent). One tract is NA indicating it is commercial or industrial, without residents.

The weighted average of the MSA/Non-MSA Census Median Family Income was \$36,886 as of 1990. The updated MSA Median Family Income for 1999 is \$54,100. Income levels and percentages of families in the assessment area are low (20 percent), moderate (16 percent), middle (20 percent), and upper income (44 percent).

According to 1990 census, 61 percent of housing within the assessment area was 1 - 4 family units, with 36 percent represented by multifamily housing. The weighted average of the median housing value was \$87 thousand. Unemployment is low and economic conditions are favorable. The primary industry is oil and gas, with other significant industries including medical and transportation. Dun & Bradstreet 1997 business demographic data shows 83 thousand businesses in the bank's assessment area. A significant majority of those that reported income information (71 percent) had sales of less than \$1 million. The business demographics of the assessment area provide significant lending opportunities to small businesses. Competition in the area is intense from both large and small financial institutions, as well as non-bank financial entities

We contacted a representative of an area Chamber of Commerce to determine credit needs of the community and performance of area institutions. Our contact was positive concerning the efforts of local banks. The contact did not reveal any unaddressed credit

needs, but stated development loans were the most needed. The bank generates these types of loans.

## Conclusions about Performance Criteria

### Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio meets the standards for satisfactory performance. Northwest Bank attempts to meet the credit needs of its assessment area. The loan-to-deposit ratio has averaged 42 percent for the twelve quarters since the July 31, 1996 CRA exam. Table 1 shows the bank's ratios with a comparison to a local peer group of banks with less than \$250 million in assets for the five most recent quarters.

**Table 1**

For the Quarter Ending	Northwest Bank Loan-to-Deposit Ratio*	Defined Peer Group Loan-to-Deposit Ratio*
June 30, 1999	40.88%	65.37%
March 31, 1999	38.33%	63.37%
December 31, 1998	40.97%	63.92%
September 30, 1998	39.91%	61.15%
June 30, 1998	32.55%	61.46%
Average	38.53%	63.05%

\* as determined from Call Report data.

The loan-to-deposit ratio is affected by several factors. When these factors are considered, the bank's ratio is closer to the peer group. The bank has significant deposits from affiliated companies which do not borrow from the bank. These relationships also fluctuate often at the end of a quarter resulting in inflated deposits. Additionally, the bank has significant public deposits, and a large volume of unfunded loan commitments. Considering these adjustments, the bank's loan-to-deposit ratio would be near peer levels.

Management is active in their efforts to increase the loan-to-deposit ratio. Efforts include a Hispanic Marketing Program, an extensive Officer Call Program targeting a moderate income area, and outreach to women owned businesses. Also, the bank has a 1999 Marketing Plan calling for community advertising, targeted direct mail, and the offering of bilingual services.

**Lending in The Assessment Area**

The level of lending in the assessment area is a majority and meets the standard for satisfactory performance. The following table details the results of a management analysis of loan originations granted from July 1, 1998, through March 31, 1999. We tested the integrity of management's information and found it reliable.

**Table 2**

<b>LOANS IN THE BANK'S ASSESSMENT AREA</b>	<b>INSIDE AREA</b>	<b>OUTSIDE AREA</b>	<b>TOTAL</b>
Number of Loans	298	70	368
Percentage of Number of Loans	81%	19%	100%
Dollar Amount of Loans	\$19.6 Million	\$7.9 Million	\$27.5 Million
Percentage of Dollar Amount	71%	29%	100%

**Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

Lending to borrowers of different incomes and to businesses of different sizes meets the standard for satisfactory performance. The primary product line is commercial, but consumer and home mortgage loans are offered. Home mortgage lending is limited.

*Lending to Individuals*

We reviewed a management analysis of loan originations from July 1, 1998, through March 31, 1999. We confirmed the accuracy of the information by sampling the loan files used to compile the data. The level of lending to low income individuals in the number of loans exceeds the characteristics of the assessment area. The following table details the results:

**Table 3**

<b>LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS BY NUMBER OF LOANS</b>					
<b>Income of Families</b>	<b>Low Income</b>	<b>Moderate Income</b>	<b>Middle Income</b>	<b>Upper Income</b>	<b>Total</b>
<b>Area Demographics</b>	20%	16%	20%	44%	100%

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS BY NUMBER OF LOANS										
	#	%	#	%	#	%	#	%	#	%
Northwest Bank	41	29%	12	8%	29	21%	59	42%	141	100%
BY DOLLAR AMOUNT OF LOANS IN THOUSANDS (000)										
	\$	%	\$	%	\$	%	\$	%	\$	%
Northwest Bank	337	18%	82	5%	319	17%	1,112	60%	1,850	100%

*Small Business Loan Originations*

The bank has a significant level of lending to new home builders. As a group, home builders tend to have revenues in excess of \$1 million. The number and dollar amount of loans to builders with their revenue range is presented below.

**Table 4**

RESIDENTIAL CONSTRUCTION				
Borrower Revenue Range	Number	%	Total of Loans in Thousands (\$ 000)	%
\$0 to < \$1,000,000	1	2%	155	2%
\$1,000,000 to < \$2,999,999	2	4%	506	5%
\$3,000,000 to < \$5,999,999	25	56%	5,048	53%
\$6,000,000 to < \$10,999,999	17	38%	3,760	40%
Over \$11,000,000	0	0%	0	0%
Total	45	100%	9,469	100%

The level of lending to small businesses is reasonable. An analysis of all commercial loan originations from July 1, 1998 through March 31, 1999 reflects 40 percent of the number of loans and 59 percent of the dollar amount of the bank's loans were granted to businesses with less than \$1 million in revenues.

**Table 5**

COMMERCIAL LOAN SAMPLE				

COMMERCIAL LOAN SAMPLE				
Borrower Revenue Range	Number	%	Total of Loans in Thousands (000)	%
\$0 to < \$1,000,000	44	40%	4,860	59%
\$1,000,000 to < \$2,999,999	25	22%	1,319	16%
\$3,000,000 to < \$5,999,999	13	12%	651	8%
\$6,000,000 to < \$10,999,999	15	13%	824	10%
Over \$11,000,000	15	13%	604	7%
Total	112	100%	8,258	100%

### Geographic Distribution of Loans

The geographic distribution of loans is reasonable and meets the standards for satisfactory performance. The distribution reflects lending in all income level census tracts within the assessment area. In addition, our review did not reveal any concerns as to the lack of or low penetration in low- and moderate-income census tracts.

We used bank information to determine the geographic distribution of lending within the assessment area. Information used included all loan originations in the bank's assessment area from July 1, 1998 through March 31, 1999. Our test of the bank's information revealed that it was reliable. Results of the sample are shown in table 6:

**Table 6**

GEOGRAPHIC DISTRIBUTION OF LOANS BY NUMBER OF LOANS										
Census Tract Designation	Low Income		Moderate Income		Middle Income		Upper Income		Total	
	#	%	#	%	#	%	#	%	#	%
Assessment Area	24	8%	72	26%	91	33%	91	33%	279	100%
Northwest Bank	6	2%	59	20%	107	36%	126	42%	298	100%
BY DOLLAR AMOUNT OF LOANS IN THOUSANDS (000)										
	\$	%	\$	%	\$	%	\$	%	\$	%

**GEOGRAPHIC DISTRIBUTION OF LOANS  
BY NUMBER OF LOANS**

Northwest Bank	177	1%	2,368	12%	5,121	26%	11,910	61%	19,576	100%
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In the previous table, we analyzed the location of the bank's loans as to census tract income characteristics. This analysis reflects a reasonable distribution of lending in all census tracts. Although low income tracts are not located close to any of the bank's offices, the analysis reflects loans have been granted in those tracts.

**Responses to Complaints**

During this evaluation period, the bank did not receive any consumer complaints regarding its CRA performance. However, the bank has a satisfactory procedure in place to handle consumer complaints.

**Record of Compliance with Antidiscrimination Laws**

A Fair Lending review was performed at the same time as this CRA examination. A sample of twenty-two automobile loans and twenty certificates of deposit (CD) secured loans originated since February of 1999 were reviewed. The review of the automobile loans focused on ensuring no prohibitive factors were considered in the underwriting process. CD loans were reviewed to ensure no prohibitive factors were considered in pricing. Our Fair Lending review did not disclose any evidence of discrimination on a prohibited basis. The bank is in compliance with the provisions of antidiscrimination laws and regulations. In addition, we did not find any violations of the substantive provisions of the antidiscrimination laws and regulations.

**Other Information**

Northwest Bank purchased a \$500 thousand Fannie Mae DUS Bond since the last examination. The bond provides affordable housing in Houston, Texas in a moderate income census tract. The bank also funded a \$50 thousand dollar line of credit to a nonprofit organization that provides small business owners various services at favorable terms. Also, the bank provides office space to nonprofit organizations and community groups. Officers and employees actively participate in Consumer Credit Counseling Services, The Credit Coalition and Fundamentals of Good Credit Program, and development of a Credit Resource Inventory.